

Fueling Entrepreneurial Ecosystems for Underserved Groups



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Many low- and medium-income countries boast thriving startup ecosystems, yet they often overlook the inclusion of underserved communities within these startup ecosystems. Systemic issues stemming from organisational and social biases underscore individual barriers, exacerbated by the absence of flexible capital tailored to the needs of underserved entrepreneurs.

Novel approaches that consider the complexities of diverse lived experiences, socio-economic backgrounds, and accessibility to information, networks, and capital must be imagined. An approach that focuses on one or more individual projects or programs invariably falls short, failing to acknowledge the interconnectedness that fosters long-term, sustainable entrepreneurial infrastructure.

In this article, we will explore the importance of fueling entrepreneurial ecosystems for underserved groups and highlight key strategies to address their unique needs based on our experiences in Eastern Europe, Kenya, Mexico and South Africa. It's been quite the journey but we are seeing some early indicators that

suggest we are moving in the right direction. In Mexico, our rate of capital deployment has doubled every year since starting in 2021 and we are projected to allocate in excess of one million US-dollar in 2024—a huge milestone given in our first year we had a portfolio of USD134,000. In Kenya where reaching underserved communities has proven particularly challenging in the current political environment, we developed an outreach strategy focused on identifying connectors from different communities (bubbles) to disseminate the opportunity for funding and training. Our first (clandestine) call for applications resulted in over 40 businesses applying.

The Challenge of Inaccessible Entrepreneurial Ecosystems

Entrepreneurial ecosystems serve as the lifeblood of economic inclusion, growth, and innovation. However, in many regions, underserved groups face significant barriers that prevent their active participation in these ecosystems. Existing infrastructure and programs often unintentionally exclude these entrepreneurs, leading to underdeveloped and untapped talent. Our investment initiatives in countries like Kenya, Mexico, Poland, and Romania have provided insights into the challenges faced by these entrepreneurs in accessing and benefiting from established entrepreneurial ecosystems.

The Need for Safe Spaces

Creating safe spaces is essential for underserved groups as they provide refuge from discrimination, harassment, and prejudice. They go beyond physical boundaries and are characterised by a supportive community that offers empathy, understanding, and solidarity. The need for community and belonging are often underestimated in designing programmes as the lived experience of underserved communities is so different and diverse to their peers.

In Mexico, we collaborated closely with entrepreneurs from the transgender communities. While they certainly valued the technical support provided, what truly made a profound impact was the creation of a (virtual) safe haven for candid sharing of experiences, coupled with accessible support via WhatsApp. Such spaces, where

individuals needn't disclose their identity or justify their struggles, are virtually nonexistent for underserved communities.

Building Trust and Reaching Underserved Communities

Establishing trust is critical to reach underserved groups, particularly those who operate within closed social circles and don't necessarily want to be found. These entrepreneurs often socialise and operate in bubbles, making it challenging for external parties to engage with them. To overcome this barrier, connectors who have existing relationships and networks within these communities are needed. Trust-building efforts should focus on fostering authentic and long-lasting relationships with these connectors, enabling access to the bubble and ensuring that underserved entrepreneurs are reached.

In one of our investment initiatives, we engaged two third-party teams to assist in identifying potential investees. One organisation had a strong LGBTQIA* focus, with a proven track record of empowering LGBTQIA* entrepreneurs, while the other primarily had experience running specific incubation programs for corporates. The distinction between the two was significant: the LGBTQIA*-focused organisation garnered referrals and community support, whereas the other faced greater scepticism and distance.

Tailoring Capital Solutions to Different Entrepreneurial Journey Stages

Entrepreneurs from underserved groups require different types of capital at various stages of their entrepreneurial journey. Many of these entrepreneurs lack access to “family and friends money” for the initial injection of capital. While they possess resourcefulness and talent to make ends meet, they often lack the financial cushion to upskill and develop their business models further. They also need to see a relatively quick return on their investment.

To meet capital requirements, we offer specialised capacity-building programs that prepare participants for investment. Our training emphasises strategy, marketing, accounting, finance, and the formalisation of informal businesses. Upon completing this

program, entrepreneurs are eligible to apply for interest-free loans, functioning similarly to recoverable grants. Typically, these entrepreneurs' credit profiles would preclude them from accessing conventional financial products, except at prohibitive costs. However, we prioritise their willingness over their ability to repay, which has proven to be a highly effective approach. First pilots in South Africa and Mexico are delivering impressive results with repayment rates above our expectations. Our ultimate goal is to support entrepreneurs throughout their business journey by providing a spectrum of financial solutions—from interest-free and concessional loans to working capital facilities—thereby paving their way into the mainstream financial ecosystem.

Overcoming Specific Challenges for Underserved Entrepreneurs

In the markets we operate in, certain challenges disproportionately impact underserved communities and hinder their entrepreneurial endeavours. For instance, registering a business becomes a significant obstacle if an individual's official identification does not match their name or gender. Formalisation processes are disproportionately expensive, impeding the ability of underserved entrepreneurs to establish legal entities. Complex tax systems further exacerbate the challenges faced by these entrepreneurs. Therefore, specific support to address these challenges are paramount.

The Importance of Connectivity and Continued Engagement

To ensure the long-term sustainability of entrepreneurial ecosystems, opportunities for continued engagement with peers and mentors are indispensable. Connectivity and active networks enable entrepreneurs to learn from each other, access like-minded talent, and identify potential clients. By fostering a sense of community and establishing support systems, entrepreneurs from underserved groups can develop resilience and thrive within the larger entrepreneurial ecosystem. Our investment initiative in Mexico highlights the significant demand for peer-to-peer exchanges, providing platforms for individuals to openly share experiences, successes, challenges, and failures. Access to relatable role models

and the assurance of a supportive network during challenging times proves to be an invaluable asset.

The Long-term Investment in Ecosystem Building

Building an inclusive and resilient entrepreneurial ecosystem requires a long-term investment. The initial phase may lay the groundwork, but the second phase is often more costly and demanding. In order to sustain the momentum, the ecosystem needs to be improved continuously. This necessitates ongoing commitment and resources.

Conclusion

The primary goal needs to be the development of long-term infrastructure. Constructing such infrastructure demands time, sustained commitment, and the active engagement of all stakeholders. It also requires in-country expertise to address the complexity of the challenges involved.

While pilot projects seldom fail outright, they also seldom scale, or provide the desired longevity once they conclude. This is typically because they focus on isolated aspects, such as a specific acceleration program or limited amount of capital to be deployed. As a result, the temptation is high for funders to focus on highly scalable solutions only. Since a one-size-fits-all approach falls short, diverse pools of capital and tailored capacity-building initiatives must be crafted. Diverse initiatives will support entrepreneurs along their unique journeys, much rather than adhering to funders' perceptions of needs (including inherent biases and stereotypes). These journeys vary based on business models, industries, and numerous other factors—resulting in a mix of scalable ventures and smaller yet robust organisations, sometimes operating in-between for-profit and not-for-profit models. Overemphasising of hyper-growth models sends misleading signs to aspiring entrepreneurs and the market, as it prioritises one approach over others. Many problems are solved through steady, incremental growth rather than dramatic spikes, necessitating flexible infrastructure capable of accommodating this diversity of trajectories, of the existing capacities, as well as a diversity of capital requirements.

To truly catalyse change within entrepreneurial ecosystems for underserved groups, it is crucial to integrate technical assistance, financial support, and investment in a holistic manner. The focus should be on scaling infrastructure and provide the space for creative problem solving with a diversity of approaches.

Ultimately, we want our approach not only to foster economic inclusion and drive innovation. We seek to empower underserved populations, enabling them to be recognized and to exercise their agency. By tackling the unique barriers faced by these entrepreneurs, and by implementing customised financial solutions, combined with skills-building, we can facilitate their participation. We trust that this will contribute to a more equitable and prosperous society.

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About Stefan Bollier

Stefan is a member of Dreilinden's investment committee. He is the founder of Swiss-based [Impact Advisors LLC](#), which is advising [Dreilinden](#) on the development and implementation of the foundation's impact investment strategy.

About Dreilinden gGmbH

[Dreilinden](#) is a Hamburg-based foundation dedicated to advancing societal acceptance of gender and sexual diversity. Founded in 2007, Dreilinden plays a driving role in supporting people with diverse sexual orientation, gender identity and expression and sex characteristics, providing grants and investments. Kindly note that Dreilinden is not accepting any grant applications at this time.